



ASSET ALLOCATION (6/30/02)

Total investment portfolio of \$96.7 billion

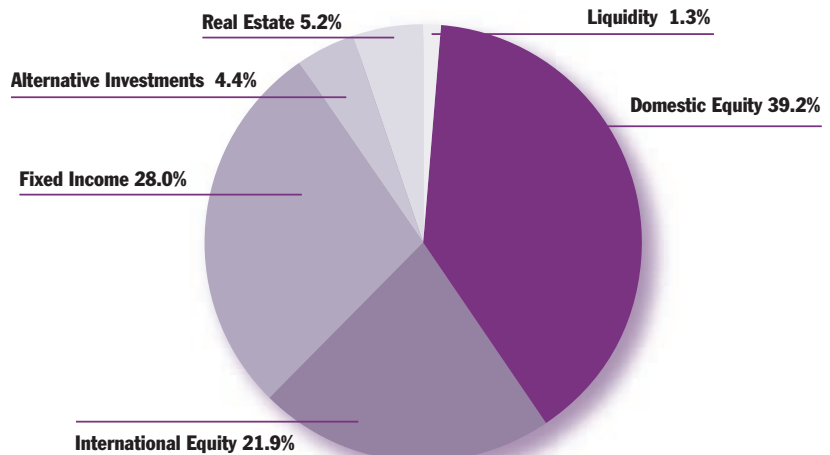
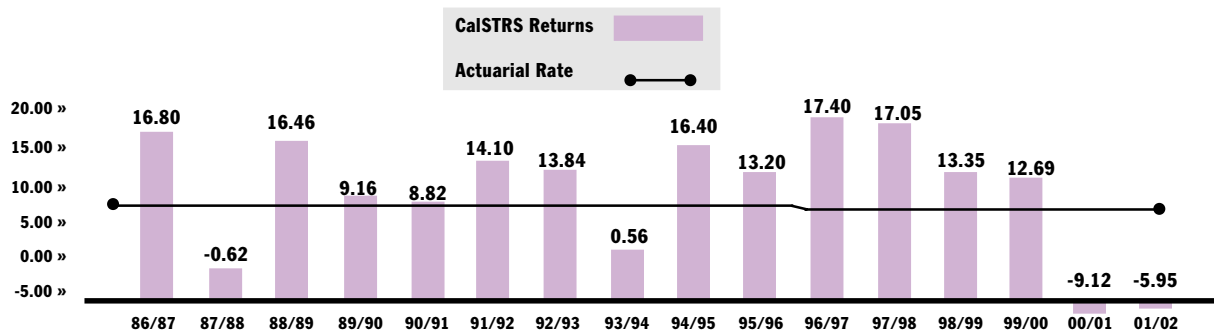


CHART B

Growth in CalSTRS' returns (percent)



past 15 years. Chart B compares CalSTRS' returns with the three-year average assumed actuarial goal for the Fund. Chart C shows the performance returns for all of the asset classes in the portfolio relative to their benchmark indices. The return calculations are consistent with Association of Investment Management and Research performance presentation standards.

BENCHMARK CHANGES

During the past fiscal year the CalSTRS Investment Committee reviewed and approved new benchmarks for both the U.S. Equity and Fixed Income asset classes. The Russell 3000 Index was selected for U.S. Equity and the Lehman Brothers U.S. Aggregate and HighYield Cash Pay

for Fixed Income. As a result of the new index benchmark changes, adjustments have been undertaken within both asset classes. In addition, the Investment Committee continued to have all of the investment benchmarks modified to exclude tobacco companies.

OBJECTIVES

The core objectives of the Investment Management Plan remained unchanged. The primary objectives are set forth in the California Constitution and the California Education Code. The foremost objective is to provide for present and future benefit payments, then to diversify the assets, and finally, endeavor to reduce CalSTRS funding costs.